

## REBUTTAL TESTIMONY OF

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**JIMMY E. ADDISON**

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**Q. PLEASE STATE YOUR NAME AND POSITION FOR THE**

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**RECORD.**

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A.

My name is Jimmy E. Addison. I am Senior Vice President and

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Chief Financial Officer of South Carolina Electric & Gas Company

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(“SCE&G” or the “Company”).

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**Q.**

**HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY**

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## IN THIS PROCEEDING?

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A.

I have.

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**O.**

## WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

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A.

The purpose of my rebuttal testimony is to respond to certain points

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made by Nancy Brockway, the witness for the Friends of the Earth, related

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to SCE&G's plans and ability to finance the project to construct VCSNS

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Units 2 &amp; 3.

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1 **FINANCING ISSUES**

2 **Q. WHAT DOES MS. BROCKWAY CONTEND CONCERNING**  
3 **SCE&G'S ABILITY TO FINANCE VCSNS UNITS 2 & 3 IN THE**  
4 **CURRENT ECONOMIC CONDITIONS?**

5 A. Ms. Brockway contends that the Commission should reject the  
6 Company's application because "the current economic crisis alone raises  
7 serious doubts about the Company's ability to secure financing for the  
8 project." (Brockway Direct at p. 48.)

9 **Q. HOW DO YOU RESPOND TO THIS CONTENTION?**

10 A. Ms. Brockway offers no factual support for her contention. In fact,  
11 recent events have demonstrated SCE&G's ability to maintain access to  
12 capital even in times of unprecedented financial uncertainty and  
13 disruption. The recent turmoil in capital markets has not prevented  
14 SCE&G from accessing hundreds of millions of dollars of capital on  
15 reasonable terms.

16 **Q. PLEASE EXPLAIN.**

17 A. At the height of the recent financial turmoil, during the last week of  
18 September, 2008, SCE&G went to the market for \$250 million in 10 year  
19 first mortgage bonds to fund its operations and increase its cash reserves.  
20 The bonds were initially offered at 6 7/8 percent interest. The financial  
21 community's response to the solicitation far exceeded the Company's  
22 expectations. In all, the Company received formal expressions of interest

1 in subscribing to these bonds that totaled \$1.3 billion. In light of this  
2 market response, SCE&G increased the size of the ultimate issue to \$300  
3 million and tighten the coupon interest rate to 6 ½ percent. The bond issue  
4 was successfully closed during the first week in October. Additionally, on  
5 October 29, 2008, I received an unsolicited inquiry from another large  
6 investor wanting to acquire more SCE&G bonds.

7 Furthermore, earlier in the financial crisis, SCE&G was able to  
8 draw on its lines of credit with a consortium, including lead banks – Bank  
9 of America and Wachovia Bank, for \$400 million in immediate liquidity to  
10 support the cash needs of its operations and to create cash reserves against  
11 future uncertainties.

12 **Q. WHAT DOES THIS INDICATE ABOUT THE COMPANY'S**  
13 **ABILITY TO RAISE CAPITAL IN DIFFICULT TIMES?**

14 **A.** The financial markets' response to uncertainty is often what is  
15 called a flight to quality. This means that in times of uncertainty investors  
16 seek to put their money in companies with stable and predictable  
17 businesses, and sound balance sheets. SCE&G's ability to raise hundreds  
18 of millions of dollars in capital during the height of the liquidity crisis  
19 indicates that the financial markets perceive SCE&G as a solid utility  
20 business with a stable credit profile which can serve as a safe haven for  
21 investment long-term. This perception is due to many factors but a key  
22 factor is the markets' understanding that regulation in South Carolina is

1 consistent, reasonable and fair and supports continued investment in the  
2 energy infrastructure necessary for the future competitiveness of the State.  
3 So long as this assurance is maintained, SCE&G should remain an  
4 attractive investment opportunity with good access to capital even when  
5 markets are uncertain. The Company's success in raising funds during  
6 what most observers believe to be the worst credit crisis in 75 years is  
7 strong evidence that this will be the case and is objective data that the  
8 market will support nuclear investment in a reasonable regulatory  
9 environment.

10 **Q. IS THIS YOUR ONLY CONCERN ABOUT MS. BROCKWAY'S**  
11 **CONTENTION IN THIS REGARD?**

12 **A.** No, it is not. I would also take issue with Ms. Brockway's  
13 suggestion that the Company should stop an 11-year nuclear construction  
14 program based on the near-term condition of the economy.

15 **Q. WHY DO YOU TAKE ISSUE WITH THIS CONTENTION?**

16 **A.** My concern is with the short range perspective that underlies this  
17 view. The Company is undertaking the construction of VCSNS Units 2 &  
18 3 to support the long-term efficiency and reliability of its electrical system  
19 and, therefore, the economic development of South Carolina. The  
20 planning horizon supporting this project is many decades long. The  
21 construction and financing of the units will take place over 11 years.

22 Markets have cycles. During the course of a project like the

1 construction of VCSNS Units 2 & 3 there will likely be several high and  
2 low points in the economic cycle. If the Company were to put projects  
3 like VCSNS Units 2 & 3 on hold every time there is a market reversal,  
4 then investors would quickly lose patience with the Company, and the long  
5 term needs of our customers could not be met efficiently. Furthermore,  
6 delaying this project creates the risk that power supplies will be  
7 constrained precisely when the economy is ready to grow again and need  
8 those supplies most.

9 **Q. HOW DO YOU RESPOND TO MS. BROCKWAY'S CONTENTION**  
10 **THAT THE COMMISSION SHOULD REQUIRE THE COMPANY**  
11 **TO PROVIDE A DETAILED FUTURE FINANCING PLAN FOR**  
12 **THE VCSNS UNITS 2 & 3 PROJECT?**

13 A. The sort of analysis Ms. Brockway suggests assumes knowledge of  
14 future market conditions and of the timing and size of bond and equity  
15 issues than are beyond any reasonable person's ability to predict. By  
16 contrast, SCE&G's standard practice in financing major projects is to  
17 commit to a well-defined financial approach while maintaining flexibility  
18 concerning how that approach will be implemented over time.

19 **Q. PLEASE EXPLAIN.**

20 A. In the Application, at Exhibits F and M, SCE&G has provided the  
21 Commission with a detailed statement of the capital investment, year by  
22 year, necessary to construct VCSNS Units 2 & 3. The Company has also

1 provided a detailed schedule of the projected rate adjustments year by year  
2 to support this investment. Those rate adjustments will be made through  
3 revised rates filings under the terms of the Base Load Review Act, and as  
4 the act envisions, will provide for timely recovery of the cost of capital  
5 associated with investments in the units. These adjustments are self  
6 calibrating and will reflect the current cost of debt, the current capital  
7 structure and the current amount of capital investment in the units at the  
8 time of each proceeding. The return on equity is set at a rate that is  
9 sufficient in current conditions, but can change if the Commission sets a  
10 different return in a future rate proceeding.

11 As the project progresses, the Company will issue short term debt to  
12 meet immediate needs for capital to support construction. This approach is  
13 in keeping with the Company's standard practice when investing in major  
14 capital projects on its system. When the short term debt outstanding  
15 reaches a sufficient amount, and as market conditions indicate, SCE&G  
16 will issue long-term or medium-term debt to replace the short-term debt.  
17 The timing, size and terms of these medium-term to long-term debt  
18 issuances will depend on market conditions at the time and the cash needs  
19 of the project as they develop over time. The timing and amount of these  
20 issuances cannot be predicted accurately at this time.

21 As to capital structure, the Company will monitor its equity to  
22 capital ratios, and plans to issue equity sufficient to finance the nuclear

1 investment on a 50-50 basis over time. Again, the timing, amount and  
2 nature of equity issuances will depend on market conditions at the time the  
3 decision to issue equity is made.

4 The plan set out here is in fact the Company's plan for financing  
5 VCSNS Units 2 & 3. This is the same plan that has been presented to the  
6 rating agencies, to the investment community, and to this Commission in  
7 the Application and direct testimony in this proceeding. To go beyond this  
8 level of detail, as Ms. Brockway suggests, is not helpful or reasonable  
9 because doing so would presume a level of knowledge concerning the  
10 timing of future debt and equity issues, the timing of future cash needs,  
11 and the nature of future market conditions that no one has today. Under  
12 the Company's approach to this financing this project, the timing, size and  
13 terms of future debt and equity issuances remain flexible as well they  
14 should. The details concerning the plan will only be known with certainty  
15 as future conditions develop.

16 **Q. HOW DO YOU RESPOND TO MS. BROCKWAY'S CONTENTION**  
17 **THAT THE COMMISSION SHOULD REQUIRE SANTEE**  
18 **COOPER TO SUBMIT A FINANCING PLAN FOR ITS 45%**  
19 **STAKE IN THE VCSNS UNITS 2 & 3 PROJECT?**

20 A. Santee Cooper, or more properly the South Carolina Public Service  
21 Authority, is a governmental agency of the State of South Carolina. It is  
22 the exclusive provider of electric service to a rapidly growing service

1 territory on the coast of South Carolina, and also serves as wholesale  
2 supplier to the majority of rural electric cooperatives in South Carolina.  
3 All told, Santee Cooper's wholesale and retail customer base is in excess  
4 of one million customers. Santee Cooper is not before the Commission in  
5 this case because, as a governmental entity, it is not subject to the  
6 regulatory jurisdiction of the Commission.

7 Santee Cooper is one of the largest public power utilities in the  
8 nation with approximately \$1.4 billion in revenue and \$5.9 billion in  
9 assets. The areas it serves include some of the fastest growing areas in  
10 South Carolina. To support this growth, Santee Cooper has successfully  
11 accessed billions of dollars in capital in recent decades to build and  
12 upgrade power plants. Santee Cooper has very good access to capital. It is  
13 required by its bond documents to maintain certain reserves and to meet  
14 certain revenue ratios, but so long as it meets those requirements, it can  
15 finance its capital needs with debt exclusively. Interest on that debt is  
16 exempt from Federal and South Carolina income tax and so bears a  
17 relatively low interest rate. Santee Cooper is not subject to economic  
18 regulation, and Santee Cooper's board has the right to adjust rates at any  
19 time. Santee Cooper's bond documents mandate that Santee Cooper set  
20 rates which at all times are sufficient to cover its operating and  
21 maintenance cost, to fund all required reserves and to pay debt service on  
22 its bonds on a timely fashion. Based on these factors, Santee Cooper's



1 debt has been consistently rated AA by the major rating agencies.

2 As additional support, on October 24, 2008, Santee Cooper sold  
3 \$667 million in revenue obligation bonds in the midst of the ongoing  
4 market challenges. In my opinion, Santee Cooper is very capable of raising  
5 the capital necessary to defray its portion of the expense of constructing  
6 VCSNS Units 2 & 3.

7 **Q. HOW DO YOU RESPOND TO MS. BROCKWAY'S ASSERTION**  
8 **THAT THE COMPANY IS DEPENDENT ON FEDERAL LOAN**  
9 **GUARANTEES TO FINANCE THIS PROJECT?**

10 **A.** I am unaware of where Ms. Brockway has gotten this impression.  
11 SCE&G has never believed or meant to communicate that Federal loan  
12 guarantees are a necessary part of its financing plan for these units.  
13 SCE&G will monitor the guarantee process and may take advantage of  
14 Federal loan guarantees if they are available on reasonable terms, with  
15 reasonable administrative requirements, and if they provide a significant  
16 benefit to customers and the Company. The terms on which the  
17 guarantees may be made available are not known at this time, and so the  
18 Company has not made any commitment to take advantage of such  
19 guarantees if they are made available. Similarly, SCE&G is in no way  
20 dependant on these guarantees or any other similar Federal subsidies to  
21 proceed with the project.

1 **REQUESTS FOR RELIEF**

2 **Q. HOW DO YOU RESPOND TO MS. BROCKWAY’S REQUEST**  
3 **FOR RELIEF IN THIS MATTER?**

4 **A.** As an alternative to denying the Application in this matter outright,  
5 Ms. Brockway asks the Commission to “defer the consideration of any  
6 pre-completion approval of the Company’s plans” until some future date.  
7 (Brockway Direct, p. 9). She further asserts that even if the Commission  
8 approves the Application, it should rule “that the Company assumes the  
9 risks identified in this docket” and that “no further [sic] adjustment to the  
10 approved schedule or budget for completion of the plant may be made on  
11 account of [certain] risks.” She also asks the Commission to rule that “the  
12 Company may not seek an increase in rates or extension of depreciation or  
13 amortization to recover any costs above those approved in this docket.”  
14 (Brockway Direct, pp. 9-10).

15 Each of these requests is in direct contradiction to the terms of the  
16 Base Load Review Act as I understand them and as they have been  
17 presented to, and understood by, the investment community. It has  
18 become increasingly clear with time that the investment community’s  
19 willingness to support the VCSNS Units 2 & 3 project is dependent on the  
20 Base Load Review Act and the assumption that the Commission will  
21 implement the terms of that act in a straight forward way consistent with  
22 its terms. In my opinion, a ruling by the Commission incorporating any of

1 Ms. Brockway's proposed terms would be seen by the investment  
2 community as a major departure from their understanding of what the Base  
3 Load Review Act was meant to accomplish, and would place the  
4 Company's ability to finance the project in serious jeopardy.

5 **Q. WHAT ARE YOU ASKING THIS COMMISSION TO DO?**

6 A. SCE&G respectfully requests that the Commission issue a  
7 combined order under the Base Load Review Act, and the Siting Act  
8 approving construction of VCSNS Units 2 & 3 under the terms set forth in  
9 the Combined Application in this matter.

10 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

11 A. Yes, it does.